TRACTOR SUPPLY CO /DE/
Form 10-Q
November 02, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 29, 2007
OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________
Commission file number 000-23314
TRACTOR SUPPLY COMPANY

(Exact Name of Registrant as Specified in Its Charter)

Delaware	13-3139732
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
200 Powell Place, Brentwood, Tennessee	37027
(Address of Principal Executive Offices)	(Zip Code)
Registrant s Telephone Number, Including Area Code:	(615) 366-4600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES þ NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o NO þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date.

Class	Outstanding at October 27, 2007
Common Stock, $.008 par value	38,531,428

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TRACTOR SUPPLY COMPANY
CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	September 29, 2007 *(Unaudited)*	December 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25,722	$ 37,605
Inventories	699,312	594,851
Prepaid expenses and other current assets	43,942	37,007
Deferred income taxes	1,061	11,360
Total current assets	770,037	680,823
Property and equipment:		
Land	23,151	19,495
Buildings and improvements	270,701	248,063
Furniture, fixtures and equipment	167,314	146,128
Computer software and hardware	50,769	46,853
Construction in progress	26,191	15,404
	538,126	475,943
Accumulated depreciation and amortization	(206,366)	(174,339)
Property and equipment, net	331,760	301,604
Goodwill	10,258	10,288
Deferred income taxes	15,829	10,779
Other assets	5,720	5,976
Total assets	$ 1,133,604	$ 1,009,470
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 292,208	$ 240,383
Other accrued expenses	111,450	111,721
Current portion of capital lease obligations	803	1,065
Income taxes currently payable		11,550
Total current liabilities	404,461	364,719
Revolving credit loan	88,552	
Capital lease obligations, less current maturities	2,236	2,808

Straight-line rent liability	29,504	24,399
Other long-term liabilities	24,026	18,640
Total liabilities	548,779	410,566
Stockholders equity:		
Preferred stock, 40,000 shares authorized, $1.00 par value; no shares issued		
Common stock, 100,000,000 shares authorized; $.008 par value; 40,571,265 shares issued and 38,706,651 shares outstanding at September 29, 2007 and 40,281,732 shares issued and outstanding at December 30, 2006	325	322
Additional paid-in capital	145,698	129,249
Treasury stock at cost, 1,864,614 shares	(94,924)	
Accumulated other comprehensive loss		(22)
Retained earnings	533,726	469,355
Total stockholders equity	584,825	598,904
Total liabilities and stockholders equity	$ 1,133,604	$ 1,009,470

The accompanying notes are an integral part of this statement.

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TRACTOR SUPPLY COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)

	For the fiscal three months ended		For the fiscal nine months ended	
	Sept. 29, 2007	Sept. 30, 2006	Sept. 29, 2007	Sept. 30, 2006
	(Unaudited)		*(Unaudited)*	
Net sales	$ 629,199	$ 559,222	$ 1,979,960	$ 1,739,714
Cost of merchandise sold	430,552	384,303	1,362,709	1,198,292
Gross margin	198,647	174,919	617,251	541,422
Selling, general and administrative expenses	156,078	135,099	470,224	410,726
Depreciation and amortization	12,900	10,717	37,270	30,920
Operating income	29,669	29,103	109,757	99,776
Interest expense, net	1,517	385	3,046	1,939
Income before income taxes	28,152	28,718	106,711	97,837
Income tax expense	10,684	10,659	40,487	36,326
Net income	$ 17,468	$ 18,059	$ 66,224	$ 61,511
Net income per share basic	$ 0.45	$ 0.45	$ 1.67	$ 1.54
Net income per share diluted	$ 0.44	$ 0.44	$ 1.63	$ 1.50

The accompanying notes are an integral part of this statement.

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TRACTOR SUPPLY COMPANY
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(in thousands, except share amounts)
(Unaudited)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Stockholders equity at December 30, 2006	$ 322	$ 129,249	$	$ (22)	$ 469,355	$ 598,904
Cumulative effect of change in accounting principle (Note 8)					(1,853)	(1,853)
Issuance of common stock under employee stock purchase plan (34,477 shares)	1	1,367				1,368
Exercise of stock options (255,056 shares)	2	3,188				3,190
Tax benefit on disqualifying dispositions of stock options		3,242				3,242
Stock compensation		8,652				8,652
Repurchase of common stock (1,864,614 shares)			(94,924)			(94,924)
Foreign currency translation adjustment				22		22
Net income					66,224	66,224
Stockholders equity at September 29, 2007	$ 325	$ 145,698	$ (94,924)	$	$ 533,726	$ 584,825

The accompanying notes are an integral part of this statement.

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TRACTOR SUPPLY COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the fiscal nine months ended Sept. 29, 2007	Sept. 30, 2006
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 66,224	$ 61,511
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	37,270	30,920
Gain on sale of property and equipment	(68)	(190)
Stock compensation expense	8,652	7,053
Deferred income taxes	5,249	(78)
Change in assets and liabilities:		
Inventories	(104,461)	(147,070)
Prepaid expenses and other current assets	(6,547)	968
Accounts payable	51,825	58,381
Other accrued expenses	188	1,837
Income taxes currently payable	(11,550)	(377)
Other	8,693	6,512
Net cash provided by operating activities	55,475	19,467
Cash flows from investing activities:		
Capital expenditures	(68,363)	(58,513)
Proceeds from sale of property and equipment	966	5,071
Other		(746)
Net cash used in investing activities	(67,397)	(54,188)
Cash flows from financing activities:		
Borrowings under revolving credit agreement	756,850	301,114
Repayments under revolving credit agreement	(668,298)	(278,221)
Tax benefit of stock options exercised	2,687	9,002
Principal payments under capital lease obligations	(834)	(933)
Repurchase of common stock	(94,924)	
Net proceeds from issuance of common stock	4,558	8,736
Net cash provided by financing activities	39	39,698

Net increase (decrease) in cash and cash equivalents		(11,883)		4,977
Cash and cash equivalents at beginning of period		37,605		21,203
Cash and cash equivalents at end of period	$	25,722	$	26,180
Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest	$	2,087	$	2,169
Income taxes		47,010		26,672
Supplemental disclosure of non-cash activities:				
Equipment acquired through capital leases	$		$	1,461

The accompanying notes are an integral part of this statement.

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TRACTOR SUPPLY COMPANY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Basis of Presentation:

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. These statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 30, 2006. The results of operations for the fiscal three-month and nine-month periods are not necessarily indicative of results for the full fiscal year.

Our business is highly seasonal. Historically, our sales and profits have been the highest in the second and fourth fiscal quarters of each year due to the sale of seasonal products. Unseasonable weather, excessive rain, drought, and early or late frosts may also affect our sales. We believe, however, that the impact of adverse weather conditions is somewhat mitigated by the geographic dispersion of our stores.

Typically, we experience our highest inventory and accounts payable balances during our first fiscal quarter each year for purchases of seasonal product in anticipation of the spring selling season and again during our third fiscal quarter in anticipation of the winter selling season.

Note 2 Reclassifications:

Certain amounts in previously issued financial statements have been reclassified to conform to the fiscal 2007 presentation. Inventory initially consigned but ultimately purchased has been included in the inventory and accounts payable balances in the consolidated balance sheets. Discount fees on our proprietary credit card have been reclassified from operating expenses into cost of merchandise sold in the consolidated statements of income.

Note 3 Inventories:

The value of our inventory is determined using the lower of last-in, first-out (LIFO) cost or market. Inventories are not in excess of market value. Quarterly inventory determinations under LIFO are based on assumptions as to projected inventory levels at the end of the fiscal year, sales for the year and the rate of inflation/deflation for the year. If the first-in, first-out (FIFO) method of accounting for inventory had been used, inventories would have been approximately $23.0 million and $20.3 million higher than reported at September 29, 2007 and December 30, 2006, respectively.

Note 4 Share-Based Payments:

Pursuant to Statement of Financial Accounting Standards No. 123(R), Share-Based Payments (SFAS 123(R)) (adopted in fiscal 2006), we recognize compensation expense for share-based payments based on the fair value of the awards, using the modified prospective method. Share-based payments include stock option grants and transactions under our other stock plans. SFAS 123(R) requires share-based compensation expense to be based on the following: a) grant date fair value estimated in accordance with the original provisions of SFAS 123 for unvested options granted prior to the adoption of SFAS 123(R); b) grant date fair value estimated in accordance with the provisions of SFAS 123(R) for all share-based payments granted subsequent to adoption; and c) the discount on shares sold to employees subsequent to adoption, which represents the difference between the grant date fair value and the employee purchase price. Share-based compensation expense lowered pre-tax income by $2.9 million and $2.4 million for the third quarter of fiscal 2007 and 2006, respectively and $8.6 million and $7.1 million for the first nine months of fiscal 2007 and 2006, respectively. The benefits of tax deductions in excess of recognized compensation expense are reported as a financing cash flow.

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Under SFAS 123(R), forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. This estimate is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate.

Stock Incentive Plan

Under our 2006 Stock Incentive Plan, options may be granted to officers, non-employee directors and other employees. The per share exercise price of options granted shall not be less than the fair market value of the stock on the date of grant and such options will expire no later than ten years from the date of grant. In the case of a stockholder owning more than 10% of our outstanding voting stock, the exercise price of an incentive stock option may not be less than 110% of the fair market value of the stock on the date of grant and such options will expire no later than five years from the date of grant. Also, the aggregate fair market value of the stock with respect to which incentive stock options are exercisable on a tax deferred basis for the first time by an individual in any calendar year may not exceed $100,000. Vesting of options commences at various anniversary dates following the dates of grant.

The fair value of each option grant is separately estimated for each vesting date. The fair value of each option is recognized as compensation expense ratably over the vesting period. We have estimated the fair value of all stock option awards as of the date of the grant by applying a modified *Black-Scholes* pricing valuation model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense, including expected stock price volatility.

The following summarizes information concerning stock option grants during fiscal 2007 and 2006:

	Three months ended		**Nine months ended**	
	Sept. 29, 2007	**Sept. 30, 2006**	**Sept. 29, 2007**	**Sept. 30, 2006**
Stock options granted	12,250	17,600	449,700	493,100
Weighted average exercise price	$ 48.08	$ 47.89	$ 46.49	$ 61.58
Weighted average fair value	$ 19.67	$ 28.04	$ 19.57	$ 34.65

As of September 29, 2007, total unrecognized compensation expense related to non-vested stock options and restricted stock units was $19,323,000 with a weighted average expense recognition period of 1.50 years.

Restricted Stock Units

During the first nine months of 2007, we issued 63,389 restricted stock units which vest over an approximate three-year term and had a grant date weighted average fair value of $46.49.

Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan (the ESPP) whereby all our employees have the opportunity to purchase, through payroll deductions, shares of common stock at a 15% discount. Pursuant to the terms of the ESPP, we issued 34,477 and 26,890 shares of common stock during the first nine months of fiscal 2007 and 2006, respectively. Total stock compensation expense related to the ESPP was approximately $433,000 and $319,000 during the first nine months of 2007 and 2006, respectively. At September 29, 2007, there were 3,311,580 shares of common stock reserved for future issuance under the ESPP.

Note 5 Net Income Per Share:

We present both basic and diluted earning per share (EPS) on the face of the consolidated statements of income. As provided by SFAS 128 Earnings per Share , basic EPS is calculated as income available to common stockholders divided by the weighted average number of shares outstanding during the period. Diluted EPS is calculated using the weighted average outstanding common shares and the treasury stock method for shares issuable upon exercise of options and vesting of restricted stock.

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Net income per share is calculated as follows (in thousands, except per share amounts):

	Three months ended September 29, 2007			Three months ended September 30, 2006		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic net income per share:						
Net income	$ 17,468	38,972	$ 0.45	$ 18,059	40,135	$ 0.45
Dilutive stock options and restricted stock outstanding		841	(0.01)		953	(0.01)
Diluted net income per share:						
Net income	$ 17,468	39,813	$ 0.44	$ 18,059	41,088	$ 0.44

	Nine months ended September 29, 2007			Nine months ended September 30, 2006		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic net income per share:						
Net income	$ 66,224	39,606	$ 1.67	$ 61,511	39,933	$ 1.54
Dilutive stock options and restricted stock outstanding		933	(0.04)		1,132	(0.04)
Diluted net income per share:						
Net income	$ 66,224	40,539	$ 1.63	$ 61,511	41,065	$ 1.50

Note 6 Credit Agreement:

In February 2007, we entered into a new Senior Credit Facility with largely the same lender group as under our previous credit facility. The new Senior Credit Facility provides for borrowings up to $250 million (with sublimits of $75 million and $10 million for letters of credit and swingline loans, respectively). This agreement is unsecured and has a five-year term, with proceeds expected to be used for working capital, capital expenditures and share repurchases. Borrowings bear interest at either the bank s base rate or LIBOR plus an additional amount ranging from 0.35% to 0.90% per annum, adjusted quarterly based on our performance (0.50% at September 29, 2007). We are also required to pay a commitment fee ranging from 0.06% to 0.18% per annum based on our performance (0.10% at September 29, 2007). The agreement requires quarterly compliance with respect to fixed charge coverage and leverage ratios. We were in compliance with all covenants at September 29, 2007.

Note 7 Treasury Stock:

In February 2007, our Board of Directors authorized a share repurchase program which provides for repurchase of up to $200 million (excluding commissions) of common stock over an approximate three-year period. The repurchases may be made from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares repurchased under the program will depend on a variety of factors, including price, corporate and regulatory requirements, capital availability, and other market conditions. Repurchased shares will be held in treasury. The program may be limited or terminated at any time without prior notice.

We repurchased 645,022 and 1,864,614 shares under the share repurchase program during the third quarter and first nine months of 2007, respectively. The total cost of the share repurchases was $31.2 million and $94.9 million during the third quarter and first nine months of 2007, respectively. As of September 29, 2007, we had remaining authorization under the share repurchase program of $105.1 million.

Note 8 Accounting for Uncertainty in Income Taxes:
In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48) to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes . This Interpretation prescribes the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Tax positions that meet a more-likely-than-not recognition threshold should be measured in order to determine the tax benefit to be recognized. We are no longer subject to federal examination for years before 2005, nor state and local income tax examinations for years before 2002.
We adopted the provisions of FIN 48 in fiscal 2007, as required. As a result, we charged approximately $1.9 million to retained earnings for the cumulative effect of adoption, including interest. Interest and penalties are immaterial at the date of adoption. The total amount of unrecognized tax benefits that, if recognized, would increase the effective tax rate, is $2.3 million. In addition, we will recognize current interest accrued related to these uncertain tax positions as interest expense.
Note 9 New Accounting Pronouncements:
In March 2006, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation) (EITF 06-3), which allows companies to adopt a policy of presenting taxes in the income statement on either a gross or net basis. Taxes within the scope of EITF 06-3 would include taxes that are imposed on a revenue transaction between a seller and a customer, for example, sales taxes, use taxes, value-added taxes, and some types of excise taxes. We adopted the provisions of EITF 06-3, as required, in fiscal 2007. EITF 06-3 does not impact the method for recording and reporting these sales taxes in our consolidated financial statements as our policy is to exclude all such taxes from revenue.
In September 2006, the FASB issued Statement No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 (our fiscal year 2008), and interim periods within those fiscal years. We are currently evaluating the impact that the adoption of SFAS 157 will have on our consolidated financial statements.
In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS 115, which permits entities to choose to measure many financial instruments and certain other items at fair value. The fair value option established by this standard permits all entities to choose to measure eligible items at fair value at specified election dates. Entities choosing the fair value option would be required to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Adoption is required for fiscal years beginning after November 15, 2007 (our fiscal year 2008). We are currently evaluating the expected effect of SFAS 159 on our consolidated financial statements.
Note 10 Commitments and Contingencies:
Construction Commitments
We had commitments for new store construction projects totaling approximately $6.2 million at September 29, 2007.
Litigation
We are involved in various litigation matters arising in the ordinary course of business. After consultation with legal counsel, our management expects these matters will be resolved without material adverse effect on our consolidated financial position or results of operations. Any estimated loss related to such matters has been adequately provided in accrued liabilities to the extent probable and reasonably estimable. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in circumstances relating to these proceedings.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

General

The following discussion and analysis describes certain factors affecting our results of operations for the fiscal three and nine month periods ended September 29, 2007 and September 30, 2006 and significant developments affecting our financial condition since the end of the fiscal year ended December 30, 2006, and should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 30, 2006. The following discussion and analysis also contains certain historical and forward-looking information. The forward-looking statements included herein are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (the Act). All statements, other than statements of historical facts, which address activities, events or developments that we expect or anticipate will or may occur in the future, including such things as estimated results of operations in future periods, future capital expenditures (including their amount and nature), business strategy, expansion and growth of our business operations and other such matters are forward-looking statements. These forward-looking statements may be affected by certain risks and uncertainties, any one, or a combination of which could materially affect the results of our operations. To take advantage of the safe harbor provided by the Act, we are identifying certain factors that could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written.

Our business is highly seasonal. Historically, our sales and profits have been the highest in the second and fourth fiscal quarters of each year due to the sale of seasonal products. Unseasonable weather, excessive rain, drought, and early or late frosts may also affect our sales. We believe, however, that the impact of adverse weather conditions is somewhat mitigated by the geographic dispersion of our stores.

Typically, we experience our highest inventory and accounts payable balances during the first fiscal quarter each year for purchases of seasonal products in anticipation of the spring selling season and again during the third fiscal quarter in anticipation of the winter selling season.

As with any business, many aspects of our operations are subject to influences outside our control. These factors include general economic cycles affecting consumer spending, weather factors, operating factors affecting customer satisfaction, consumer debt levels, inflation, pricing and other competitive factors, the ability to attract, train and retain qualified employees, the ability to manage growth and identify suitable locations and negotiate favorable lease agreements on new and relocated stores, the timing and acceptance of new products in the stores, the mix of goods sold, the continued availability of favorable credit sources, capital market conditions in general, the ability to increase sales at existing stores, the ability to retain vendors, the risk of product liability and other claims, reliance on foreign suppliers, the ability to maintain and improve our management information systems and the seasonality of our business. We discuss in greater detail risk factors relating to our business in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 30, 2006. Forward-looking statements are based on our knowledge of our business and the environment in which we operate, but because of the factors listed above or other factors, actual results could differ materially from those reflected by any forward-looking statements. Consequently, all of the forward-looking statements made are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated will be realized or, even if substantially realized, that they will have the expected consequences to or effects on our business and operations. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Results of Operations

Fiscal Three Months (Third Quarter) and Nine Months Ended September 29, 2007 and September 30, 2006

Net sales increased 12.5% to $629.2 million for the third quarter of 2007 from $559.2 million for the third quarter of 2006. Net sales increased 13.8% to $1,980.0 million for the first nine months of fiscal 2007 from $1,739.7 million for the first nine months of fiscal 2006. The net sales increase resulted primarily from the addition of new stores, successful store relocations, and same-store sales improvement of 1.9% and 3.3% for the third quarter and first nine months, respectively. Our third quarter same-store sales improvements were strongest in the animal health and pet supplies categories, but were largely offset by lower than expected performance in the seasonal (primarily heating and insulated outerware) and hardware and tools categories as well as continued negative industry pressures in outdoor power equipment.

We opened 21 new stores during the third quarter and 63 stores during the first nine months of fiscal 2007, compared to 18 and 64 stores opened during the third quarter and first nine months of 2006, respectively. Additionally, we relocated four stores in both the third quarter of 2007 and the third quarter of 2006. For the first nine months of 2007, we relocated 11 stores and sold the Del s store in Canada, compared to 15 relocations and one closed store in the first nine months of 2006. We operated 738 stores at September 29, 2007 as compared to 658 stores at September 30, 2006.

The following chart indicates the average percentage of sales represented by each of our major product categories during the third quarter and first nine months of fiscal 2007 and 2006:

	Three months ended		Nine months ended	
	Sept. 29, 2007	Sept. 30, 2006	Sept. 29, 2007	Sept. 30, 2006
Livestock and Pet	35%	34%	33%	32%
Seasonal Products	24	25	26	27
Hardware and Tools	15	16	15	15
Truck and Towing	10	10	10	10
Agriculture	9	8	9	9
Clothing and Footwear	7	7	7	7
Total	100%	100%	100%	100%

Gross margin for the third quarter and the first nine months of fiscal 2007 was $198.6 million and $617.3 million, respectively. This represents an increase of 13.6% and 14.0%, respectively, over the comparable periods of the prior year. Gross margin, as a percent of sales, was 31.6% for the third quarter of fiscal 2007 compared to 31.3% for the comparable period in fiscal 2006. The improvement in gross margin for the quarter resulted from more favorable product mix and enhanced product sourcing. For the first nine months of fiscal 2007, the gross margin rate was 31.2% of sales, compared to 31.1% of sales for the first nine months of fiscal 2006.

Selling, general and administrative (SG&A) expenses increased 60 basis points to 24.8% of sales in the third quarter of fiscal 2007 from 24.2% of sales in the third quarter of fiscal 2006. This third quarter increase was primarily attributable to higher personnel and occupancy costs resulting from continued store expansion, as well as increased costs at our distribution centers to handle more imports and additional inventory for new merchandising initiatives. SG&A expenses for the first nine months of fiscal 2007 increased 10 basis points to 23.7% of sales from 23.6% of sales in the first nine months of fiscal 2006.

Depreciation and amortization expense increased 20 basis points to 2.1% of sales in the third quarter of fiscal 2007 from 1.9% of sales in the third quarter of fiscal 2006. As a percent of sales, depreciation and amortization expense increased 10 basis points to 1.9% in the first nine months of fiscal 2007 from 1.8% in the first nine months of fiscal 2006. The increases were related directly to new store growth and capital costs for infrastructure and technology.

Interest expense for the third quarter of 2007 was $1.5 million compared to $0.4 million in the prior year quarter. For the first nine months of fiscal 2007, interest expense increased to $3.0 million compared to $1.9 million for the comparable period in fiscal 2006. The increased interest cost is primarily attributable to borrowings to fund our stock repurchase activity and, to a lesser extent, borrowings required for cash requirements.

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Our effective income tax rate increased to 37.9% in the third quarter and first nine months of fiscal 2007 compared with 37.1% for the third quarter and first nine months of fiscal 2006 primarily due to state taxes relating to the composition of income among the states and the adoption of FIN 48 relating to uncertainties in income tax positions. This interpretation prescribes the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Tax positions that meet a more-likely-than-not recognition threshold should be measured in order to determine the tax benefit to be recognized. We are no longer subject to federal examination for years before 2005, and state and local income tax examinations for years before 2002.

We adopted the provisions of FIN 48 in fiscal 2007, as required. As a result, we charged approximately $1.9 million to retained earnings for the cumulative effect of adoption including interest. Interest and penalties were immaterial at the date of adoption. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is $2.3 million. In addition, we recognize current interest accrued related to these uncertain tax positions as interest expense.

As a result of the foregoing factors, net income for the third quarter and first nine months of fiscal 2007 decreased $0.6 million and increased $4.7 million, respectively, to $17.5 million and $66.2 million from $18.1 million and $61.5 million in the third quarter and first nine months of fiscal 2006, respectively. Net income, as a percent of sales, decreased 40 basis points to 2.8% for the third quarter of fiscal 2007 compared to 3.2% in the third quarter of fiscal 2006. For the first nine months of fiscal 2007, net income as a percent of sales decreased 20 basis points to 3.3% compared to 3.5% for the first nine months of fiscal 2006. Net income per diluted share was consistent at $0.44 for the third quarter and increased to $1.63 for the first nine months of fiscal 2007, compared to $0.44 for the third quarter and $1.50 for the first nine months of fiscal 2006.

Liquidity and Capital Resources

In addition to normal operating expenses, our primary ongoing cash requirements are for store expansion, remodeling and relocation programs, including inventory purchases and capital expenditures. Our primary ongoing sources of liquidity are funds provided from operations, commitments available under our revolving credit agreement and normal trade credit.

At September 29, 2007, we had working capital of $365.5 million, a $49.4 million increase from December 30, 2006. This increase was primarily attributable to changes in the following components of current assets and current liabilities (in millions):

	Sept. 29, 2007	Dec. 30, 2006	Variance
Current assets:			
Cash and cash equivalents	$ 25.7	$ 37.6	$ (11.9)
Inventories	699.3	594.9	104.4
Prepaid expenses and other current assets	43.9	37.0	6.9
Other, net	1.1	11.3	(10.2)
	770.0	680.8	89.2
Current liabilities:			
Accounts payable	292.2	240.4	51.8
Accrued expenses	111.5	111.7	(0.2)
Income tax currently payable		11.5	(11.5)
Other, net	0.8	1.1	(0.3)
	404.5	364.7	39.8
Working capital	$ 365.5	$ 316.1	$ 49.4

The increase in inventories and related increase in accounts payable resulted primarily from the purchase of additional inventory for new stores and an increase in average inventory per store due to increased sales expectations and planned merchandising initiatives. Trade credit arises from our vendors granting extended payment terms for inventory purchases. Payment terms generally vary from 30 days to 180 days depending on the inventory product.

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Operations provided net cash of $55.5 million and $19.5 million in the first nine months of fiscal 2007 and fiscal 2006, respectively. The $36.0 million increase in net cash provided in 2007 over 2006 is primarily due to changes in the following operating activities (in millions):

	Nine months ended		
	Sept. 29, 2007	Sept. 30, 2006	Variance
Net income	$ 66.2	$ 61.5	$ 4.7
Inventories and accounts payable	(52.6)	(88.7)	36.1
Prepaid expenses and other current assets	(6.5)	1.0	(7.5)
Accrued expenses	0.2	1.8	(1.6)
Income taxes currently payable	(11.6)	(0.4)	(11.2)
Other, net	59.8	44.3	15.5
Net cash provided by operations	$ 55.5	$ 19.5	$ 36.0

The improvement in net cash provided by operations in the first nine months of fiscal 2007 compared with the first nine months of fiscal 2006 was primarily due to changes in inventory levels and the timing of payments. Inventory levels increased less in the first nine months of 2007 compared to the first nine months of 2006, due to the timing of import receipts and a focus on inventory management in 2007. Additionally, we achieved a slight increase in financed inventory, resulting in a higher accounts payable increase relative to inventory. The change in cash used for income taxes relates to the timing of payments of income taxes.

Investing activities used $67.4 million and $54.2 million in the first nine months of fiscal 2007 and fiscal 2006, respectively. The majority of this cash requirement relates to our capital expenditures.

Capital expenditures (including equipment acquired under capital lease) for the first nine months of fiscal 2007 and fiscal 2006 were as follows (in millions):

	Nine months ended	
	Sept. 29, 2007	Sept. 30, 2006
New/relocated stores and stores not yet opened	$ 32.0	$ 39.1
Existing store properties acquired from lessor	6.8	
Existing stores	14.3	15.4
Distribution center capacity and improvements	2.0	1.9
Information technology	13.1	3.5
Corporate and other	0.2	0.1
	$ 68.4	$ 60.0

The above table reflects 74 new/relocated stores in the first nine months of fiscal 2007, compared to 79 new/relocated stores in the first nine months of fiscal 2006.

Financing activities provided no significant cash in the first nine months of fiscal 2007 and $39.7 million in the first nine months of fiscal 2006. This reduction in net cash provided is largely due to the repurchase of shares of our common stock.

In February 2007, we entered into a new Senior Credit Facility with largely the same lender group as under our prior credit facility. The new Senior Credit Facility provides for borrowings up to $250 million (with sublimits of $75 million and $10 million for letters of credit and swingline loans, respectively). This agreement is unsecured and has a five-year term, with proceeds expected to be used for working capital, capital expenditures and share repurchases. Borrowings bear interest at either the bank s base rate or LIBOR plus an additional amount ranging from

0.35% to 0.90% per annum, adjusted quarterly based on our performance (0.50% at September 29, 2007). We are also required to pay a commitment fee ranging from 0.06% to 0.18% per annum based on our performance (0.10% at September 29, 2007). The agreement requires quarterly compliance with respect to fixed charge coverage and leverage ratios. We were in compliance with all covenants at September 29, 2007.

We had approximately $139.0 million available for future borrowings, net of outstanding letters of credit, under our revolving credit agreement at September 29, 2007.

We believe that our cash flow from operations, borrowings available under our revolving credit agreement, and normal trade credit will be sufficient to fund our operations and capital expenditure needs, including store openings and renovations, over the next several years.

Share Repurchase Program

In February 2007, our Board of Directors authorized a share repurchase program which provides for repurchase of up to $200 million (excluding commissions) of our outstanding common stock over an approximate three-year period. The repurchases may be made from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares repurchased under the program will depend on a variety of factors, including price, corporate and regulatory requirements, capital availability, and other market conditions. The program may be limited or terminated at any time without prior notice.

In the third quarter of 2007, we repurchased 645,022 shares of our common stock, at a total cost of $31.2 million. On a year-to-date basis, we have repurchased approximately 1.9 million shares at a total cost of $94.9 million. Repurchased shares are accounted for at cost and will be held in treasury for future issuance.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements are limited to operating leases and outstanding letters of credit. Leasing buildings and equipment for retail stores and offices rather than acquiring these significant assets allows us to utilize financial capital to operate the business rather than maintain assets. Letters of credit allow us to purchase inventory in a timely manner.

We had outstanding letters of credit of $22.4 million at September 29, 2007.

Significant Contractual Obligations and Commercial Commitments

There has been no material change in our contractual obligations and commercial commitments other than in the ordinary course of business since the end of fiscal 2006.

Significant Accounting Policies and Estimates

Our discussion and analysis of our financial position and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make informed estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Significant accounting policies, including areas of critical management judgments and estimates, have primary impact on the following financial statement areas:

- Revenue recognition and sales returns	- Inventory valuation
- Insurance reserves	- Sales tax reserve
- Share-based payments	- Income taxes

See Note 1 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 30, 2006 for a discussion of our critical accounting policies. Our financial position and/or results of operations may be materially different when reported under different conditions or when using different assumptions in the application of such policies. In the event estimates or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to changes in interest rates primarily from our revolving credit agreement (the Credit Agreement). The Credit Agreement bears interest at either the bank s base rate (7.75% and 8.25% at September 29, 2007 and September 30, 2006, respectively) or LIBOR (5.13% and 6.08% at September 29, 2007 and September 30, 2006, respectively) plus an additional amount ranging from 0.35% to 0.90% per annum, adjusted quarterly, based on our performance (0.50% at September 29, 2007). We are also required to pay, quarterly in arrears, a commitment fee ranging from 0.06% to 0.18% based on the daily average unused portion of the Credit Agreement (0.10% at September 29, 2007). See Note 6 of the Notes to the Consolidated Financial Statements included herein for further discussion regarding the Credit Agreement.

Although we cannot accurately determine the precise effect of inflation on our operations, we believe our sales and results of operations have been affected by inflation. We are subject to market risk with respect to the pricing of certain products and services, which include, among other items, petroleum, steel, corn, soybean and other commodities as well as transportation services. If prices of these materials continue to increase, consumer demand may fall and/or we may not be able to pass all such increases on to our customers and, as a result, sales and/or gross margins could decline. Our strategy is to reduce or mitigate the effects of inflation principally by taking advantage of vendor incentive programs, economies of scale from increased volume of purchases, increasing retail prices and selectively buying from the most competitive vendors without sacrificing quality. Due to the competitive environment, such conditions have and may continue to adversely impact our gross margin.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We carried out an evaluation required by the Securities Exchange Act of 1934, as amended (the 1934 Act), under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the 1934 Act) as of September 29, 2007. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of September 29, 2007, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the 1934 Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the third quarter of fiscal 2007 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in various litigation matters arising in the ordinary course of business. After consultation with legal counsel, management expects these matters will be resolved without material adverse effect on our consolidated financial position or results of operations. Any estimated loss related to such matters has been adequately provided in accrued liabilities to the extent probable and reasonably estimable. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in circumstances relating to these proceedings.

Item 1A. Risk Factors

None

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

In February 2007, our Board of Directors authorized a share repurchase program which provides for repurchase of up to $200 million (excluding commissions) of our outstanding common stock over an approximate three-year period. Stock repurchase activity during the third quarter of 2007 is set forth in the table below:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
7/1/07 7/28/07	256,800	$ 50.01	256,800	$ 123,482,101
7/29/07 8/25/07	185,531	48.20	185,531	114,545,145
8/26/07 9/29/07	202,691	46.47	202,691	105,132,103
As of September 29, 2007	645,022		645,022	

We expect to implement the balance of the repurchase program through purchases made from time to time either in the open market or through private transactions, in accordance with regulations of the Securities and Exchange Commission.

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

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Item 6. Exhibits

Exhibits

31.1 Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TRACTOR SUPPLY COMPANY

Date: November 2, 2007

By: /s/ Anthony F. Crudele
Anthony F. Crudele
Executive Vice President Chief Financial Officer and Treasurer
(Duly Authorized Officer and Principal Financial Officer)